



## LERADO GROUP (HOLDING) COMPANY LIMITED

(隆成集團(控股)有限公司)\*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1225)

### ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

#### FINANCIAL RESULTS

The Board of Directors (the “Board”) of Lerado Group (Holding) Company Limited (the “Company”) presents the audited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2006, together with the comparative figures, as follows:

#### CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
Revenue	2	1,125,465	1,047,328
Cost of sales		(866,131)	(847,264)
Gross profit		259,334	200,064
Investment income		6,552	2,894
Other income		21,254	14,842
Marketing and distribution costs		(62,535)	(66,868)
Research and development expenses		(26,872)	(24,777)
Administrative expenses		(93,843)	(93,792)
Other expenses		(5,969)	(18,365)
Share of result of an associate		(159)	—
Finance costs		(4)	(5)
Profit before tax	3	97,758	13,993
Income tax expense	4	(9,410)	(3,439)
Profit for the year		88,348	10,554
Attributable to:			
Equity holders of the Company		86,219	9,155
Minority interests		2,129	1,399
		88,348	10,554
Dividends	5	39,707	36,105
Earnings per share	6		
Basic		HK11.94 cents	HK1.27 cents
Diluted		HK11.93 cents	N/A

# CONSOLIDATED BALANCE SHEET

At 31 December 2006

	<i>Notes</i>	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		<b>333,330</b>	331,519
Investment properties		<b>17,900</b>	15,700
Prepaid lease payments		<b>34,588</b>	32,970
Intellectual property rights		<b>20,069</b>	25,677
Interest in an associate		<b>7,870</b>	—
Available-for-sale-investments		<b>4,225</b>	4,052
Deferred tax assets		<b>1,930</b>	4,107
		<b>419,912</b>	414,025
Current assets			
Inventories		<b>127,175</b>	121,793
Trade and other receivables	7	<b>170,174</b>	184,766
Prepaid lease payments		<b>717</b>	870
Loan to an associate		—	8,100
Derivative financial instruments		<b>1,550</b>	504
Tax recoverable		<b>53</b>	702
Bank balances and cash		<b>259,839</b>	178,423
		<b>559,508</b>	495,158
Current liabilities			
Trade and other payables	8	<b>182,514</b>	173,275
Tax liabilities		<b>5,589</b>	1,707
Loan from a minority shareholder		<b>780</b>	780
Derivative financial instruments		<b>1,330</b>	—
		<b>190,213</b>	175,762
Net current assets		<b>369,295</b>	319,396
Total assets less current liabilities		<b>789,207</b>	733,421
Capital and reserves			
Share capital		<b>72,194</b>	72,210
Reserves		<b>700,033</b>	636,199
Equity attributable to equity holders of the Company		<b>772,227</b>	708,409
Minority interests		<b>8,211</b>	16,921
Total equity		<b>780,438</b>	725,330
Non-current liability			
Deferred tax liabilities		<b>8,769</b>	8,091
		<b>789,207</b>	733,421

Notes:

## 1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS(s)”)

In the current year, the Company has applied, for the first time, a number of new standard, amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs has had no material effect on how the results and financial position for the current or prior accounting years have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Company has not early applied the following new standards, amendment and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendment and interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HKFRS 8	Operating Segments <sup>2</sup>
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>3</sup>
HK(IFRIC)-Int 8	Scope of HKFRS 2 <sup>4</sup>
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives <sup>5</sup>
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment <sup>6</sup>
HK(IFRIC)-Int 11	HKFRS 2-Group and Treasury Share Transactions <sup>7</sup>
HK(IFRIC)-Int 12	Service Concession Arrangements <sup>8</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>3</sup> Effective for annual periods beginning on or after 1 March 2006

<sup>4</sup> Effective for annual periods beginning on or after 1 May 2006

<sup>5</sup> Effective for annual periods beginning on or after 1 June 2006

<sup>6</sup> Effective for annual periods beginning on or after 1 November 2006

<sup>7</sup> Effective for annual periods beginning on or after 1 March 2007

<sup>8</sup> Effective for annual periods beginning on or after 1 January 2008

## 2. REVENUE BY BUSINESS SEGMENTS

An analysis of the Group's revenue and segment results by business segments is as follows:

	Sales revenue		Segment results	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Strollers	505,842	516,259	38,644	9,605
Beds & playards	107,270	115,408	6,306	(2,457)
Miscellaneous infant products <sup>#</sup>	390,911	307,603	33,828	3,113
Others	121,442	108,058	9,594	1,718
	<u>1,125,465</u>	<u>1,047,328</u>	<u>88,372</u>	<u>11,979</u>
Unallocated corporate expenses			—	(3,600)
Investment income			6,552	2,894
Fair value gain of investment properties			2,200	3,700
Surplus (Deficit) arising on revaluation of property, plant and equipment			797	(975)
Share of result of an associate			(159)	—
Finance costs			(4)	(5)
Profit before tax			97,758	13,993
Income tax expense			(9,410)	(3,439)
Profit for the year			<u>88,348</u>	<u>10,554</u>

<sup>#</sup> Miscellaneous infant products include soft goods, car seats, high chairs, bouncers, walkers and etc.

## 3. PROFIT BEFORE TAX

	2006	2005
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	32,477	33,112
Amortisation of prepaid lease payments (included in cost of sales)	835	870
Amortisation of intellectual property rights (included in other expenses)	3,956	5,250
Total depreciation and amortisation	<u>37,268</u>	<u>39,232</u>
Auditors' remuneration	1,896	1,915
Cost of inventories recognised as an expense	859,886	848,102
Employee share-based payments	810	—
Impairment for bad and doubtful debts	3,352	6,958
Impairment loss on intellectual property rights (included in other expenses)	1,862	8,540
Impairment loss on loan to an associate	—	3,600
Loss on disposal of property, plant and equipment	45	78
Write-down (reversals of write-down) of inventories	6,245	(838)
Discount on acquisition of additional interests in a subsidiary (included in other income)	(6,523)	—
Gain on disposal of prepaid lease payment	(3,255)	—
Fair value gain of investment properties	(2,200)	(3,700)
(Surplus) deficit arising on revaluation of land and buildings	(797)	975

#### 4. INCOME TAX EXPENSE

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Current tax:		
Hong Kong	4,623	3,526
Other jurisdictions	4,948	2,827
	<u>9,571</u>	<u>6,353</u>
Deferred tax	(161)	(2,914)
	<u>9,410</u>	<u>3,439</u>

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profit.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The statutory tax rate for the PRC subsidiaries is 24% and those subsidiaries regarded as export enterprises by local tax authority are subject to preferential income tax rate of 12%. During the year, all PRC subsidiaries were qualified as export enterprise.

#### 5. DIVIDENDS

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
2005 final dividend of HK3 cents (2004 final dividend: HK3.5 cents) per share	21,658	25,273
2006 interim dividend of HK2.5 cents (2005 interim dividend: HK1.5 cents) per share	18,049	10,832
	<u>39,707</u>	<u>36,105</u>

A final dividend for the year ended 31 December 2006 of HK5.5 cents (2005: HK3 cents) per share has been proposed by the Board and is subject to approval by the shareholders in general meeting.

#### 6. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the equity holders of the Company is based on the following data:

	2006	2005
Profit for the year attributable to equity holders of the Company	<u>HK\$86,219,000</u>	<u>HK\$9,155,000</u>

	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	721,993,294	722,096,724
Effect of dilutive potential ordinary shares in respect of share options	<u>815,189</u>	<u>—</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u><u>722,808,483</u></u>	<u><u>722,096,724</u></u>

For the year ended 31 December 2005, no diluted earnings per share was presented because the exercise price of the Company's share options was higher than the average market price for shares for that year.

## 7. TRADE AND OTHER RECEIVABLES

The Group has defined credit terms upto 120 days, which are agreed with its trade customers. Included in trade and other receivables are trade receivables of HK\$147,918,000, net of provision of HK\$8,546,000 (2005: HK\$164,456,000, net of provision of HK\$6,879,000) and their aged analysis is as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Within 30 days	84,295	88,899
31 to 90 days	59,303	47,292
Over 90 days	<u>4,320</u>	<u>28,265</u>
	<u><u>147,918</u></u>	<u><u>164,456</u></u>

## 8. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$120,436,000 (2005: HK\$128,384,000) and their aged analysis is as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Within 30 days	49,477	53,892
31 to 90 days	65,517	51,010
Over 90 days	<u>5,442</u>	<u>23,482</u>
	<u><u>120,436</u></u>	<u><u>128,384</u></u>

## DIVIDENDS

The Board recommends a final dividend of HK5.5 cents per share. Together with an interim dividend of HK2.5 cents per share, the total dividend of the year under review amounts to HK8 cents per share. The final dividend will be payable to the shareholders whose names appear in the register of members of the Company on 11 June 2007. Dividend warrants are expected to be sent out on or before 27 June 2007.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from 7 to 11 June 2007, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar, Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on 6 June 2007.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

The Group reported consolidated turnover of HK\$1,125.5 million for the year ended 31 December 2006, representing a growth of 7.5% over last year. The profit attributable to equity holders of the Company increased at a higher rate to HK\$86.2 million, compared with HK\$9.2 million of the previous year. Basic earnings per share amounted to HK11.94 cents (2005: HK1.27 cents).

### **Business review**

The Group's results rebounded in 2006 amid an improved operating environment. The comparatively stable prices of oil and metal tubes this year helped release pricing pressure of raw materials moderately. In addition, the Group's active restructuring of customer mix, phasing out lower-end models with extremely thin margins also led to improved gross margins. As a result, overall gross margin was raised from 19.1% to 23.0% this year.

Launching a series of new models which have been well accepted in the market contributed to the growth in the Group's revenue. The Group has been committing more resources in developing new designs in stimulating market demands. Research and development expenses amounted to 2.4% of the Group's turnover in 2006.

The Group has managed to control its operating expenses. Administrative expenses remained stable this year while marketing and distribution costs decreased by 6.5% resulting from the re-location of certain supporting functions to the Group's offices in China.

In terms of revenue, the growth momentum was mainly driven by the sales of "miscellaneous infant products", amounting to HK\$390.9 million and representing 34.7% of the Group's revenue. Among this category, sales of car seats and walkers recorded the highest growth rate. With the convenient patented click-in mechanism, the Group has been successful in pushing up car seats sales by cross-selling the product to its stroller buyers. In the meanwhile, stroller sales stayed flat, with revenue of HK\$505.8 million which accounted for 44.9% of the Group's turnover, following the exercise in screening out models with extremely low margins. Sales of beds and playards dropped by 7.1% and sales of other products increased by 12.4% as compared with the previous year.

## **Outlook**

Looking forward, the Group will allocate more resources in strengthening its design capabilities and developing innovative products to stimulate sales. We will take a close look at the future trend of raw material prices so as to formulate strategies that enhance the Group to maintain its competitiveness in the industry. We will also identify suitable business development and investment opportunities to increase our market penetration.

## **Employees and remuneration policies**

As at 31 December 2006, the Group employed a total workforce of around 5,800 staff members, of which about 5,700 worked in the PRC offices and production sites, above 100 in Taiwan mainly for marketing, sales support and research and development, and 14 in Hong Kong mainly for finance and corporate administration.

Apart from basic salaries, discretionary bonus and contribution to retirement benefits scheme, share options may also be granted to staff with reference to the individual's performance.

## **Liquidity and financial resources**

The Group adopts a conservative policy in its financial management and maintains a solid financial position. The Board is in the opinion that the Group has sufficient resources to support its operations and meet its foreseeable capital expenditure.

As at 31 December 2006, the Group had cash and bank balances, mainly in US dollars and Renminbi, of HK\$259.8 million (2005: HK\$178.4 million) and was free of bank borrowings (2005: nil). The Group's gearing ratio, expressed as total bank borrowings to shareholders' fund, is zero (2005: nil).

As at 31 December 2006, the Group had net current assets of HK\$369.3 million (2005: HK\$319.4 million) and an improved current ratio of 2.9 compared with 2.8 in 2005. Trade receivable and inventory turnover were 51 days (2005: 58 days) and 52 days (2005: 57 days) respectively.

## **Exchange risk exposure and contingent liabilities**

The sales of the Group are mainly denominated in US dollars and purchases are mainly in HK dollars, Renminbi and New Taiwanese dollars. The Group does not foresee significant risk in exchange rate fluctuation.

As at 31 December 2006, the Group had no significant contingent liabilities.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

Throughout the year, the Company has complied with the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), save for the exceptions specified and explained below.



Due to the resignation of Mr. Yang Yu Fu as Independent Non-Executive Director on 1 November 2006, the number of Independent Non-Executive Directors during the period from 1 November 2006 to 5 November 2006 fell temporarily to two, which was below the minimum number required under Rule 3.10(1) of the Listing Rules. With effect from 6 November 2006, Mr. Tyrone Lin was appointed as Independent Non-Executive Director to fill the said vacancy.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the year, the Company repurchased its own shares through the Stock Exchange as follows:

<b>Month of repurchase</b>	<b>Number of Ordinary shares of HK\$0.10 each</b>	<b>Price per share Highest HK\$</b>	<b>Price per share Lowest HK\$</b>	<b>Consideration paid HK\$</b>
May 2006	<u>156,000</u>	<u>0.56</u>	<u>0.55</u>	<u>86,955</u>

Save as described above, there was no purchase, sale or redemption of the shares of the Company by the Company or any of its subsidiaries during the year.

## **AUDIT COMMITTEE**

The Audit Committee has reviewed with management and the external auditors, Deloitte Touche Tohmatsu, the audited financial statements, the accounting principles and practices adopted by the Group.

## **PUBLICATION OF RESULTS ON THE STOCK EXCHANGE WEBSITE**

The Company's annual report containing all the relevant information required by the Listing Rules will be published on the website of the Stock Exchange in due course.

By Order of the Board  
**Huang Ying Yuan**  
*Chairman*

Hong Kong, 13 April 2007

*As at the date of this announcement, the Board of Directors of the Company comprises of Mr. Huang Ying Yuan, Mr. Chen Hsing Shin, Ms. Huang Chen Li Chu and Mr. Leung Man Fai being the Executive Directors, and Mr. Lim Pat Wah Patrick, Mr. Huang Zhi Wei and Mr. Tyrone Lin being the Independent Non-Executive Directors.*

\* *for identification purposes only*